

**GRAND RAPIDS HOUSING COMMISSION**

**GRAND RAPIDS, MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SINGLE AUDIT REPORT**

**FOR THE YEAR ENDED JUNE 30, 2004**



**REHMANN ROBSON**

*Certified Public Accountants*

Michigan Department of Treasury  
496 (2-04)**Auditing Procedures Report**

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>GRAND RAPIDS HOUSING COMMISSION</b>	County <b>KENT</b>
Audit Date <b>6/30/04</b>	Opinion Date <b>8/26/04</b>	Date Accountant Report Submitted to State: <b>3/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			<input checked="" type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).			<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>		

Certified Public Accountant (Firm Name)

**REHMANN ROBSON**

Street Address

**2330 EAST PARIS AVENUE SE**

City

**GRAND RAPIDS**

State

**MI**

ZIP

**49546**

Accountant Signature

Date

**11/1/05**

# GRAND RAPIDS HOUSING COMMISSION

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

August 26, 2004

Board of Directors  
Grand Rapids Housing Commission  
Grand Rapids, Michigan

We have audited the accompanying statement of net assets of the Grand Rapids Housing Commission, as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Grand Rapids Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Rapids Housing Commission, as of June 30, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004 on our consideration of the Grand Rapids Housing Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements of the Grand Rapids Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Grand Rapids Housing Commission has not presented management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

# GRAND RAPIDS HOUSING COMMISSION

## STATEMENT OF NET ASSETS

JUNE 30, 2004

### ASSETS

#### Current assets

Cash and cash equivalents	\$ 920,284
Accounts receivable	27,487
Due from other governmental units	752,204
Deferred expenses	101,147

#### Total current assets

1,801,122 ✓

#### Noncurrent assets

Notes receivable	170,014
Restricted assets	2,423,837
Deferred mortgage costs, net of accumulated amortization of \$60,065	42,544

#### Capital assets

Land	249,058
Buildings	31,269,061
Furniture and fixtures	3,525,240
Construction in progress	3,873,170
Less accumulated depreciation	(16,491,922)

#### Total capital assets

22,424,607

#### Total assets

26,862,124

### LIABILITIES

#### Current liabilities

Vouchers payable	\$ 143,834
Bank line of credit	669,961
Salaries and wages payable	218,937
Accrued compensated absences	180,244
Accrued interest payable	135,598
Due to the City of Grand Rapids	4,972
Current portion of bonds and notes payable	359,493
Deferred revenue	24,902

#### Total current liabilities

1,737,941

#### Noncurrent liabilities

Deferred revenue	298,161
Tenant security deposits	165,334
Bond premium	153,266
Bonds and notes payable, less current portion	10,112,034
Family self sufficiency program escrow	750,392

#### Total noncurrent liabilities

11,479,187

#### Total liabilities

13,217,128

### NET ASSETS

Invested in capital assets, net of related debt	15,203,523
Restricted	1,033,734
Unrestricted (deficit)	(2,592,261)

#### Total net assets

\$ 13,644,996

The accompanying notes are an integral part of these financial statements.

# GRAND RAPIDS HOUSING COMMISSION

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2004

<b>Operating revenues</b>	
Federal grants	\$ 19,319,620
Charges for services	1,605,459
Miscellaneous	314,915
	<hr/>
<b>Total operating revenues</b>	<b>21,239,994</b>
	<hr/>
<b>Operating expenses</b>	
Administrative	3,129,153
Tenant services	479,075
Utilities	768,452
Maintenance	1,175,702
General	305,734
Housing assistance payment	15,175,318
Depreciation and amortization	1,058,990
	<hr/>
<b>Total operating expenses</b>	<b>22,092,424</b>
	<hr/>
Operating loss	(852,430)
	<hr/>
<b>Nonoperating revenues (expenses)</b>	
Interest revenue	89,178
Interest expense and paying agent fees	(452,582)
Loss on disposal of capital assets	(202)
	<hr/>
<b>Net nonoperating expenses</b>	<b>(363,606)</b>
	<hr/>
<b>Loss before capital contributions</b>	<b>(1,216,036)</b>
	<hr/>
<b>Capital contributions</b>	
Capital grant	335,405
	<hr/>
<b>Decrease in net assets</b>	<b>(880,631)</b>
	<hr/>
Net assets, beginning of year	14,525,627
	<hr/>
Net assets, end of year	<b>\$ 13,644,996</b>

The accompanying notes are an integral part of these financial statements.

# GRAND RAPIDS HOUSING COMMISSION

## STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2004

<b>Cash flows from operating activities</b>	
Cash received from federal grants	\$19,184,484
Cash received from rental receipts	1,563,446
Cash received from other sources	314,915
	<u>21,062,845</u>
Payments for administrative services	(2,994,341)
Payments for tenant services	(479,075)
Payments for utilities	(768,452)
Payments for maintenance	(1,266,850)
Payments to other vendors	(493,867)
Housing assistance payments	(15,335,723)
	<u>(21,338,308)</u>
<b>Net cash used in operating activities</b>	<u><b>(275,463)</b></u>
<b>Cash flows from capital and related financing activities</b>	
Principal payments on bonds and notes payable	(217,993)
Proceeds from loans	4,669,961
Interest paid on bonds and notes payable	(470,139)
Principal and interest paid to the City of Grand Rapids	(100,652)
Capital grants	335,405
Proceeds on notes receivable	2,160
Purchases of capital assets, net	(3,573,261)
	<u>645,481</u>
<b>Net cash provided by capital and related financing activities</b>	<u><b>645,481</b></u>
<b>Cash flows provided by investing activities</b>	
Interest income	89,178
	<u>89,178</u>
<b>Net increase in cash and cash equivalents</b>	<u><b>459,196</b></u>
Cash and cash equivalents, beginning of year	2,214,432
<b>Cash and cash equivalents, end of year</b>	<u><b>\$ 2,673,628</b></u>
<b>Reconciliation of cash to the statement of net assets</b>	
Cash and cash equivalents presented above	\$ 2,673,628
Less: Cash and cash equivalents included in restricted assets	(1,753,344)
	<u><b>\$ 920,284</b></u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (852,430)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation and amortization	1,058,990
Changes in assets and liabilities	
Accounts receivable	(12,859)
Due from other governmental units	(135,136)
Vouchers payable and other accrued liabilities	(116,741)
Tenant security deposits	(11,697)
Due to other governmental units	(87,481)
Due to the City of Grand Rapids	(100,652)
Deferred revenue	(17,457)
<b>Net cash used in operating activities</b>	<u><b>\$ (275,463)</b></u>

The accompanying notes are an integral part of these financial statements.

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

#### *Nature of Business*

The Grand Rapids Housing Commission (the "Commission") was created by the City of Grand Rapids (the "City") under the provisions of Act 18, Public Acts of 1933 of the State of Michigan to provide for the development, maintenance and improvement of safe and sanitary housing for low-income families, handicapped, disabled, and senior citizens within the community. The Commission is under the supervision and control of a five member Board appointed by the City Manager, subject to the confirmation of the City Commission. The Commission's primary source of revenues is derived through federal grants.

#### *Reporting Entity*

The Commission is considered to be a stand-alone government in accordance with generally accepted accounting principles. The Commission reports as a business-type activity, as defined by the Governmental Accounting Standards Board Statement No. 34, rather than issuing financial statements which focus on the accountability of individual funds.

#### *Measurement Focus and Basis of Accounting*

The economic resources measurement focus and the accrual basis of accounting are used in preparing the financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission are federal grants and charges to customers for services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Commission has elected not to follow subsequent private-sector guidance.



# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

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### 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Cash and Cash Equivalents*

For the purpose of the statement of cash flows, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

#### *Receivables*

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

#### *Restricted Assets*

Certain proceeds of the Commission's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate accounts and their use is limited by applicable bond covenants. Restricted assets consist of the following accounts. The maintenance account is used to report resources set aside to subsidize potential deficiencies from the Commission's operation that could adversely affect debt service payments. The bond and interest redemption fund account is used to segregate resources accumulated for debt service payments over the next twelve months. The bond and interest reserve account is used to report resources set aside to make up potential future deficiencies in the revenue bond current debt service account. The equipment replacement account is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

#### *Due From and Due To Other Governmental Units*

These accounts represent amounts due from and due to federal grantors for specific programs and capital projects. Revenues received in advance of project costs being incurred are deferred.

#### *Capital Assets*

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

#### *Compensated Absences*

Commission employees are granted vacation and sick leave in varying amounts based on length of service.

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 2. RESTRICTED ASSETS

Assets are restricted as follows:

Tenant security deposits	\$ 165,334
Assets restricted in connection with the 1992 Housing Corporation Revenue Refunding Bonds	670,493
Assets restricted by U.S. Department of Housing and Urban Development for the replacement of certain property	794,518
Assets restricted in connection with the mortgage note payable for the property maintenance and improvement	137,941
Assets restricted in connection with the Family Self Sufficiency Program	655,551
	<u>\$2,423,837</u>

The restricted assets consist of the following:

Cash and short-term Institutional Liquid Assets	\$1,988,808
Guaranteed investment contracts	435,029
	<u>\$2,423,837</u>

### 3. DEPOSITS AND INVESTMENTS

The Commission's deposits and investments are included on the statement of net assets under the following classifications:

	Cash and Cash Equivalents	Restricted Assets	Total
Deposits	\$908,327	\$1,753,344	\$2,661,671
Investments	11,957	670,493	682,450
Total	<u>\$920,284</u>	<u>\$2,423,837</u>	<u>\$3,344,121</u>

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 3. DEPOSITS AND INVESTMENTS (CONTINUED)

#### *Deposits*

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$2,717,488 at June 30, 2004. Of that amount, up to \$100,000 in 2004 was covered by federal depository insurance. This insurance coverage pertains to all the deposits in the Grand Rapids Housing Commission's name. Of the preceding deposit amounts, therefore, the uninsured and uncollateralized portion totaled at least \$2,617,488 at June 30, 2004.

The Commission believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Commission evaluates each financial institution with which it deposits Commission funds in accordance with the parameters of the Revenue Bond Resolution and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### *Investments*

The Commission is authorized by Michigan Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

The Commission's investments are categorized to give an indication of the level of risk assumed by the entity at June 30, 2004. Investments that are insured, registered or held by the Commission or its agents fall within Risk Category 1. Commission investments in 2004 consist of uncategorized mutual funds of \$11,957 and Category 1 U.S. Treasury and U.S. Government Agency securities of \$670,493. All investments are recorded at fair value. Management believes that the deposits and investments comply with the Revenue Bond Resolution, board policy and state law noted above.

### 4. CAPITAL ASSETS

A summary of capital assets is as follows:

	<u>June 30, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>	<u>Depreciable Life-Years</u>
<b>Capital assets, not being depreciated</b>					
Land	\$ 462,754	\$ 44,204	\$257,900	\$ 249,058	-
Construction in progress	846,631	3,745,645	719,106	3,873,170	-
<b>Capital assets, being depreciated</b>					
Buildings	30,623,308	1,248,951	603,198	31,269,061	35
Furniture and fixtures	3,440,576	139,954	55,290	3,525,240	3 - 10
Total	35,373,269	5,178,754	1,635,494	38,916,529	
Less accumulated depreciation	15,449,003	1,058,990	16,071	16,491,922	
<b>Net capital assets</b>	<u>\$19,924,266</u>	<u>\$4,119,764</u>	<u>\$1,619,423</u>	<u>\$22,424,607</u>	

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 5. DEBT

The Commission has available a \$5,000,000 line of credit. Of this amount, \$1,500,000 is committed to be converted to a term note once construction on Mt. Mercy II is completed. At June 30, 2004, the balance owing on this line of credit was \$2,169,961, all of which was borrowed during the year ended June 30, 2004.

Long-term debt outstanding is as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004	Due Within One Year
Mortgage note payable monthly at \$56,168 including interest at 6.75% maturing December 2007.	\$2,354,520	\$ -	\$107,993	\$2,246,527	\$118,332
1992 Housing Corporation Revenue Refunding Bonds, payable from restricted assets, at \$55,000 principal per six months, maturing July 2022 with interest at 7.375%.	4,335,000	-	110,000	4,225,000	115,000
Term loan payable monthly at \$14,800 including interest at the bank's prime rate (3.75% at June 30, 2004), maturing July 2008.	-	2,500,000	-	2,500,000	126,161
Term loan payable (portion of the construction line of credit), payable monthly beginning in July 2005 at \$27,794 including interest at .5% below the bank's prime rate (3.25% at June 30, 2004), maturing June 2010.	-	1,500,000	-	1,500,000	-
<b>Total long-term debt</b>	<b>\$6,689,520</b>	<b>\$4,000,000</b>	<b>\$217,993</b>	<b>\$10,471,527</b>	<b>\$359,493</b>

Certain bond ordinances require that reserve funds be maintained with a minimum balance during the period each issue is outstanding.

#### *Debt Service Requirements*

The annual requirements to maturity on debt outstanding as of June 30, 2004, excluding unamortized discount and deferred refunding costs on bonds payable are as follows:

Years Ending June 30	Principal	Interest	Total
2005	\$ 359,493	\$ 714,963	\$ 1,074,456
2006	616,791	591,791	1,208,582
2007	650,965	558,445	1,209,410
2008	2,407,826	463,786	2,871,612
2009	2,560,474	310,577	2,871,051
2010-2014	1,295,978	1,159,164	2,455,142
2015-2019	1,420,000	731,046	2,151,046
2020-2023	1,160,000	148,238	1,308,238
<b>Total</b>	<b>\$10,471,527</b>	<b>\$4,678,010</b>	<b>\$15,149,537</b>

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 6. BENEFIT PLANS

During fiscal year 1998, the Commission established certain defined compensation, retirement and post-employment benefit plans. Before these plans were established, eligible employees participated in similar defined compensation, retirement and post-employment benefit plans administered by the City of Grand Rapids.

#### *Defined Benefit Plan*

The information for the Commission's defined benefit pension plan is as of December 31, 2003, which is the most recent information available.

#### *Plan Description*

The Commission's defined benefit pension plan provides retirement and disability benefits and death benefits to plan members and beneficiaries. The Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Commission.

Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

#### *Funding Policy*

The Commission is required to contribute at an actuarially determined rate. Plan member contributions, which are required by ordinance, are based on compensation. Plan member contributions are 3.78% of regular compensation paid by the Commission. The Plan member contributions are 100% vested. Employees retain the right upon resignation to withdraw their contributions plus regular interest, as defined by the plan, in lieu of any pension rights they may have.

#### *Annual Pension Cost*

For the year ended June 30, 2004, the Commission's annual pension cost of \$46,040 for MERS was equal to the Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Commission's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 6. BENEFIT PLANS (CONTINUED)

#### Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2002	\$41,584	100%	\$ -
June 30, 2003	37,693	100%	-
June 30, 2004	46,040	100%	-

#### Required Supplementary Information - Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/01	\$300,868	\$770,771	\$469,903	39.0%	\$260,417	180.4%
12/31/02	347,445	860,520	513,075	40.4%	269,811	190.2%
12/31/03	421,750	991,943	570,193	42.5%	290,029	196.6%

#### *Deferred Compensation Plans*

The Commission offers a deferred compensation plan created in accordance with Internal Revenue Code ("IRC") section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

The Commission also offers a defined contribution contributory savings plan created in accordance with IRC Section 401(a) to all full-time employees not participating in the MERS plan. Participants contribute 3% of gross wages, except for the director who contributes 6% of gross wages; the Commission contributes 8% and 14% of gross wages, respectively. Participants are immediately vested in required employee contributions and in employer contributions. Plan contributions are maintained with earnings in a deferred account for each participant. At June 30, 2004, there were 55 plan members and the total fair market value of plan assets, which consists of various mutual funds administered by ICMA Retirement Corporation, was approximately \$1,141,622. Contributions made by employees and the Commission totaled \$73,185 and \$193,125, respectively, for the year ended June 30, 2004. Covered payroll for the year ended June 30, 2004 was approximately \$2,337,779, total payroll for the year ended June 30, 2004 was approximately \$2,364,210. Plan provisions and contribution requirements are established and may be amended by the Commission.

#### *Post-Employment Benefit Plan*

The Commission pays the annual health care expenses for qualified retirees and their eligible dependents until the retirees reach age 65. The Commission records the expense on a pay-as-you-go basis. During the year ended June 30, 2004, there were no retirees receiving benefits.

# GRAND RAPIDS HOUSING COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### 7. COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

#### *Construction Commitment*

The Commission had commitments for a construction project totaling \$3,036,162 at June 30, 2004.

#### *Federal Grants*

The Commission has received several federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although no amounts have been claimed, such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Commission believes such disallowances, if any, will be immaterial.

#### *Insurance Risk Pool*

The Commission is a member of an insurance pool managed by Housing Authority Insurance ("HAI") for general, property and automobile insurance. This insurance pool is available only to Housing Authorities and is approved by the Department of Housing and Urban Development. The HAI Commission determines premiums on an annual basis. The Commission determines a standard rate and adjusts that rate annually based upon each Housing Commission's loss history.

#### *Guarantees*

The Commission is the sole member of certain corporations which are general partners of three limited partnerships. The limited partnerships were established to qualify for low income housing tax credits pursuant to federal income tax regulations. Accordingly, the Commission agreed to advance these limited partnerships amounts necessary to fund working capital deficits generated in the operation of low-income transitional housing facilities for homeless women with children or elderly individuals. Advances will bear interest at a specified banking institution's prime lending rate and are payable when the housing facilities generate sufficient revenues to make such payments. The Commission has not recorded an asset for these advances or the related interest income as the collection of the advances is not likely. In addition, pursuant to agreements between the limited partnerships and the Grand Rapids Housing Commission, at various dates beginning January 2007 through November 2010, the limited partnerships have rights to sell certain property and the Grand Rapids Housing Commission is obligated to purchase the property for a total amount of \$9,780,000.

#### *Litigation*

In the normal course of its activities, the Commission becomes a party in various legal actions. In the opinion of management, adequate reserves have been established for the potential liability of all claims.

### 8. SUBSEQUENT EVENT

On July 6, 2004, the Commission purchased land and a building totaling \$800,000 in exchange for a \$200,000 cash down payment, with the balance financed through a bank note payable in the amount of \$600,000.

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

August 26, 2004

Board of Directors  
Grand Rapids Housing Commission  
Grand Rapids, Michigan

We have audited the financial statements of Grand Rapids Housing Commission as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grand Rapids Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grand Rapids Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, MSHDA and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Robson*





# REHMANN ROBSON

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 26, 2004

Board of Directors  
Grand Rapids Housing Commission  
Grand Rapids, Michigan

### Compliance

We have audited the compliance of Grand Rapids Housing Commission with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Grand Rapids Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Grand Rapids Housing Commission's management. Our responsibility is to express an opinion on Grand Rapids Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Grand Rapids Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Grand Rapids Housing Commission's compliance with those requirements.

In our opinion, Grand Rapids Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Grand Rapids Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Grand Rapids Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management, MSHDA and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

*Rehmann Lohman*

**GRAND RAPIDS HOUSING COMMISSION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT AWARD NUMBER</u>	<u>EXPENDITURES</u>
<b><u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u></b>			
<b>Direct programs</b>			
Section 8 new construction and substantial rehabilitation	14.182	2 MI133-A005-002	\$ 1,329,921 ✓
Section 8 moderate rehabilitation (moderate rehabilitation 1)	14.856	2 MI073MR0001	99,548 ✓
Section 8 moderate rehabilitation (single room occupancy)	14.249	2 MI073MR0004	413,017 ✓
Supportive housing program	14.235	MI28B306008	198,467 ✓
Public and indian housing	14.850	MICH 73-1,2,3	697,574 ✓
Resident opportunity and supportive services	14.870	MI073RELO48A003	15,498 ✓
Section 8 housing choice vouchers	14.871	MI073VO- various	15,229,060 ✓
Public housing capital fund	14.872	MI33PO7350101	12,796 ✓
"	14.872	MI33PO7350102	412,365 ✓
"	14.872	MI33PO7350103	340,712 ✓
Shelter plus care	14.238	MI073SC0002	125,726 ✓
Section 8 new construction and substantial rehabilitation - Ransom Avenue Development Corporation	14.182	2,3 MI33-0010-001	746,469 ✓
<b>Passed through Michigan State Housing Development Authority</b>			
Emergency shelter grant program	14.231	HML-2003-5624-ESF	33,872 ✓
<b>TOTAL FEDERAL AWARDS</b>			<b>\$ 19,655,025</b>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

1) Basis of presentation-

The schedule of expenditures of federal awards includes the federal grant activity of Grand Rapids Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements. Property and equipment costs are charged to programs and reported as expenditures on the schedule of expenditures of federal awards as they are incurred.

2) These programs are treated as a cluster of programs in the OMB Circular A-133 March, 2004 compliance supplement.

3) The Ransom Avenue Development has a separately issued audit following the HUD Audit Guide.

**GRAND RAPIDS HOUSING COMMISSION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**YEAR ENDED JUNE 30, 2004**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes        X   no

Reportable condition(s) identified not  
considered to be material weaknesses?

\_\_\_\_\_ yes        X   none reported

Noncompliance material to financial  
statements noted?

\_\_\_\_\_ yes        X   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes        X   no

Reportable condition(s) identified not  
considered to be material weaknesses?

\_\_\_\_\_ yes        X   none reported

Type of auditors' report issued on compliance  
for major programs:

*Unqualified*

Any audit findings disclosed that are required to be  
reported in accordance with Circular A-133,  
Section 510(a)?

\_\_\_\_\_ yes        X   no

**Identification of major programs**

**CFDA Numbers**

**Name of Federal Program or Cluster**

14.872

Public Housing Capital Fund

14.850

Public and Indian Housing

14.871

Section 8 Rental Voucher Program

Dollar threshold used to distinguish  
between Type A and Type B programs:

\$ 589,650

Auditee qualified as low-risk auditee?

  X   Yes      \_\_\_\_\_ No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

# GRAND RAPIDS HOUSING COMMISSION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2004

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### SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

#### FINDING 03-01 ELIGIBILITY

*Condition:* From a sample of tenant files tested one did not have an application, one application was not signed and two tenants were rented apartments without being placed on the waiting list.

*Current Status:* Housing Commission procedures for file documentation and use of the tenant waiting list were reviewed with staff.

No similar findings were noted in the June 30, 2004 audit.

#### FINDING 03-02 SPECIAL TESTS AND PROVISIONS

*Condition:* While a separate replacement reserve bank account was set up by the Housing Commission, the required replacement reserve deposits were not being made into this account.

*Current Status:* The required deposits have been made.

No similar findings were noted in the June 30, 2004 audit.